

Message Text

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ACTION AGR-20

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TAGS: EAGR, GATT, EGEN, AS

SUBJ: DAIRY SUBSIDY TO BE PHASED OUT OVER TWO YEARS

1. GOA ANNOUNCED PM JULY 23 SIGNIFICANT CHANGE IN DAIRY INDUSTRY ASSISTANCE POLICY FOLLOWING CABINET DISCUSSIONS SUBSIDY ARRANGEMENTS FOR BUTTER AND CHEESE DURING 1973/74 SEASON. STATEMENT BY DPI MINISTER WRIEDT ON DECISION TO PHASE OUT BOUNTRRY ARRANGEMENTS OVER TWO YEARS INDICATED GOA SAW NEED THAT ANY EXPENDITURE TO ASSIST DAIRY INDUSTRY SHOULD BE PURPOSEFUL, AND CONSIDERED SUBSIDY AS WELFARE MEASURE INEFFECTIVE AS BULK OF PAYMENTS WENT TO WEALTHY AND LARGE PRODUCERS WHO NEEDED IT LEAST. IN ADDITION SUBSIDY PAYMENTS HAD NOT CONTRIBUTED TO SOLVING MAJOR PROBLEM OF OVER-PRODUCTION.

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2. GOA DECIDED FOR FISCAL 1973/74 SUBSIDY FOR BUTTER AND CHEESE

TO BE PAID INTO EQUALIZATION SCHEME FUND \$A18 MILLION, AND FOR 1974/75 PAYMENT OF \$A9 MILLION. THIS WOULD BE FINAL PAYMENT DIRECTLY GEARED TO OUTPUT. THE PAYMENT OF PROCESSED MILK PRODUCTS BOUNTY WOULD ALSO CONTINUE ON EXPORTS TO JUNE 30, 1975, AND AS IN PAST ACTUAL PAYMENTS RELATED TO BUTTER FAT CONTENT AND BUTTER SUBSIDY RATE. GOVERNMENT NO LONGER UNDERWRITES MINIMUM RETURN PER POUND BUTTER FAT TO PRODUCERS. THE INDUSTRY WILL BE ASSISTED TO ADJUST TO NEW CONDITIONS BY LIBERALIZATION OF MARGINAL DAIRY FARM RECONSTRUCTION SCHEME, FOR WHICH ADDITIONAL FUNDS WILL BE PROVIDED TO STATES BEYOND JUNE 1974 WHEN PRESENT RECONSTRUCTION SCHEME LEGISLATION EXPIRES. SENATOR WRIEDT ADVISED STATE MINISTERS OF DECISION AND SOUGHT THEIR CO-OPERATION IN DEVELOPMENT OF FURTHER ADJUSTMENT MEASURES.

3. SENATOR WRIEDT STATED THAT SINCE 1942/42 BUTTER AND CHEESE SUBSIDY HAD COST TAXPAYER -A773 MILLION, WITH TOTAL GOA ASSISTANCE INCLUDING FUNDS FOR RESEARCH, EXTENSION AND RECONSTRUCTION AMOUNTING TO -A874 MILLION. THE BUTTER AND CHEESE BOUNTY WAS FIXED AT \$A27 MILLION ANNUALLY BETWEEN 1956/57 AND 1969/70. IN 1970/71 AND 1971/72 SUBSIDY WAS INCREASED TO A\$42.9 AND A\$40 MILLION RESPECTIVELY, PARTLY TO OFFSET DEVALUATION LOSSES IN UK MARKET. FOR 1972/73 THE PREVIOUS GOVERNMENT UNDERTOOK TO PROVIDE NO LESS THAN A\$27 MILLION PER ANNUM DURING CURRENT FIVE-YEAR STABILIZATION PLAN TO JUNE 30, 1977.

4. PROBLEMS IN THE DAIRY INDUSTRY ARE OF LONG STANDING, AND BASICALLY COME BACK TO INABILITY OF STATES TO AGREE ON RATIONALIZATION OF INDUSTRY IN MORE FAVORED AREAS. PREVIOUS GOVERNMENT ATTEMPTED TO BRING ABOUT IMPROVEMENT IN 1960 WHEN UK ENTRY INTO EC BECAME POSSIBILITY. INDEPENDENT COMMISSION KNOWN AS MCCARTHY DAIRY INDUSTRY COMMITTEE OF ENQUIRY RECOMMENDED THAT BUTTER AND CHEESE SUBSIDY BE PHASED OUT AND FUNDS USED FOR RECONSTRUCTION AND DIVERSIFICATION. STRONG PRESSURES FROM COUNTRY PARTY CAUSED REPORT TO BE SHELVED AND NO ACTION WAS TAKEN.

5. INDUSTRY REACTION HAS BEEN ONE OF SHOCK AND DISBELIEF, ALTHOUGH SOME REDUCTION IN SUBSIDIES WAS EXPECTED. THE AUSTRALIAN DAIRY FARMERS FEDERATION WILL MEET NEXT WEEK TO EXAMINE IMPLICATIONS. PRESENT INDICATIONS ARE THAT THE MOVE COULD WELL LIMITED OFFICIAL USE

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MEAN AN END TO VOLUNTARY EQUALIZATION WHICH HAS BEEN IN EFFECT SINCE 1936. QUEENSLAND WILL BE MOST AFFECTED, AS THIS STATE HAS A RELATIVELY INEFFICIENT AND HIGH COST INDUSTRY, WHILE WESTERN AUSTRALIA HAS ALWAYS BEEN OPPOSED TO EQUALIZATION BECAUSE IT TAILORED OUTPUT TO LOCAL CONSUMPTION. NO DOUBT THE EFFICIENT VICTORIAN INDUSTRY, WHICH NOW GETS ABOUT 67 PERCENT OF THE TOTAL SUBSIDY WILL BE ABLE TO WITHSTAND THE LOSS.

6. EMBASSY COMMENT:

THIS IS THE FIRST ANNOUNCED RESULT OF A COMPLETE REVIEW NOW UNDERSTOOD

TO BE IN PROGRESS DESIGNED TO IDENTIFY REDUCTIONS WHICH CAN BE MADE IN THE STRUCTURE OF RURAL SUBSIDIES. IT IS PART OF A LARGER PROGRAM OF SUBSIDY REDUCTION WHICH LED TO THE 25 PERCENT REDUCTION OF IMPORT TARIFF ANNOUNCED JULY 18. WE UNDERSTAND CABINET HAS LOOKED AT ALL RURAL SUBSIDIES AND FINAL DECISIONS ON ALL OTHERS WILL BE ANNOUNCED WHEN BUDGET PRESENTED AUGUST 21. MEANWHILE, CURRENT PRESS REPORTS INDICATING SUBSIDIES IN PHOSPHATIC AND NITROGENOUS FERTILIZERS WILL BE CONTINUED UN-CHANGED APPEAR GROUNDLESS. LEGISLATION FOR THESE SUBSIDIES EXPIRES DECEMBER 1974, AND ALTHOUGH GOA MAY DECIDE TO PROVIDE FUNDS UNTIL THAT TIME, THIS IS BY NO MEANS CERTAIN. EMBASSY BELIEVES ANY FURTHER REDUCTIONS PROBABLY LESS DRASTIC THAN DAIRY SUBSIDY CUT, BUT IT IS CLEAR GOA WILL CONTINUE TOUGH STANCE ON RURAL INDUSTRY SUPPORT MEASURES.

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